OSA Newsletter

First Quarter 2005 **Editor: Bob Baker**

Oregon PERS Court Decision

On March 8th, the Oregon Supreme Court released its ruling in the legal challenge to the pension reforms enacted by the Oregon Legislature in 2003. Some of the most significant reforms were overturned including the earnings freeze on returns to member accounts, and the COLA freeze that was imposed on those retiring between April 2000 and April 2004.

OPERS troubles reached their zenith in 2003 when the plan's unfunded liability soared to $17 billion. Up to that time the OPERS board had been awarding member accounts generous returns, well beyond the 8% guarantee. The accumulations in those accounts would then be matched by the member's employers upon their retirement. Under this method, it was not unusual for members to receive over 100% of their pay as a retirement benefit.

Relying on contractual rights precedents, the court ruled that the accounts of members hired before 1996 were guaranteed at least an 8% return, but also ruled that any return beyond 8% was not a contractual right. The court also allowed employee contributions to be sent to individual accounts separate from their PERS accounts; that accumulation will not be "matched" by the employer upon retirement. In addition, the court ruled that the retirees' automatic 2% COLA could not be suspended. Finally, the court rejected the challenge to the use of new actuarial equivalency factors and life-expectancy tables; the pension reforms had updated the factors to more accurately capture the full cost of benefits.

As a result of these decisions, $556 million in back contributions to members accounts will be required, and an additional $30-$50 million in make-up COLAs. Because these payments will be covered by existing OPERS reserves, contributions to the plan will not need to be increased beyond the rates most recently adopted.

There are still two court cases related to OPERS reforms, one before the 9th U.S. Circuit Court of Appeals, and the other before the Oregon Supreme Court.

The March 9th edition of the Statesman Journal (www.statesmanjournal.com) contained an article on the OPERS decision.

The Oregon Supreme Court's decision can be found at http://www.publications.ojd.state.or.us/S50593.htm

Coming Boomer Brain Drain

When an inordinate number of experienced workers retire, they create a brain drain leaving their employers vulnerable. Such is the challenge facing today's employers with large numbers of baby-boomers nearing retirement.

The March 2005 edition of the Benefits & Compensation Digest, published by the International Foundation of Employee Benefit Plans (IFEBP), included the article "A Proactive Approach to Retaining Wisdom Workers." This article identified the losses related to such a brain drain, and outlines possible strategies employers may use to retain such workers.

The International Foundation website is http://www.ifebp.org

Retirement Rest Stop

More and more frequently workers are discovering that retirement is not a final destination. Retirement has become a temporary respite for those who've left the work force before age 60 and depended on employer-provided health benefits as part of their retirement package. The ever-increasing costs of providing early retirement (before age 65), particularly if those retirement benefits include health coverage, is proving unsustainable for many employers.

As reported in the Feb. 9, 2005 edition of the New York Times, many retirees are returning to work out of financial need. As employers pare back retirement benefits, workers are having to reconsider their plans for retirement. The net result is, older workers have become the fastest growing cohort of the labor force. The Department of Labor projects that workers age 55 and older will comprise over 19 percent of the work force in 2012, up from 14.3 percent in 2002.

As many employers scale back retirement benefits, there is pressure on the Social Security system to respond to the same demographic trends. As a result, policy makers are considering changing benefits because of the aging population. Even the venerable chairman of the Federal Reserve System has waded in on this issue. At a conference last year, Chairman Greenspan said,"Policies promoting longer working life could ameliorate some of the potential demographic stresses. Early initiatives to address the economic effects of baby-boom retirement could smooth the transition to a new balance between workers and retirees."

For the complete text of this article visit the New York Times website at http://www.nytimes.com

Phased Retirement a Growing Phenomenon and a Possible Solution

Phased retirement lets workers leave the work force gradually instead of entering their golden years cold turkey. Employees nearing retirement are allowed to scale back their work hours, or accept a position with less responsibility, thus easing into retirement.

In an article titled "Redefining retirement" in the February 27th issue of the Seattle Times, several employers offering phased retirement programs were highlighted:

- Monsanto, a leading agricultural/biotechnology concern, allows retirees to return to work on a part-time basis after having been gone at least 6 months.

- St. Louis-based SSM Health Care allows workers to retire at age 60 and return to work the following day while still receiving their retirement benefits.

- Proctor & Gamble and Eli Lilly founded the contract firm "YourEncore" that provides project services using retired scientists, engineers, and product developers.

For a complete text of this article visit http://seattletimes.nwsource.com

States Consider DCs

While defined contribution (DC) retirement plans have become the norm in the private sector, defined benefit plans have remained the norm in the public sector... up until now, that is. In addition to the very public proposal to change California's State retirement system to a defined contribution model for future new entrants, there are at least seven other states considering the idea. The Feb. 7, 2005 issue of Pensions & Investments reported that Alaska, Georgia, Maryland, Minnesota, New Mexico, South Carolina, and Virginia have all floated the idea of establishing DC plans for new employees.

Several states have already implemented optional DC plans including Florida, Montana, Ohio, and South Carolina. Fewer than 10 % of employees in these states switched to the DC plans.

The Pensions & Investments website can be found at http://www.pionline.com

Possible Retirement Age Hike in UK

After decades of providing retirement benefits for workers who are relatively young, public sector employers in the United Kingdom are facing demographic and economic challenges familiar to all industrialized nations. Currently, public servants in the United Kingdom can retire at age 60 or earlier. However, there is a recommendation from a recent National Health Service (NHS) consultation report to raise the retirement eligibility to age 65. Those in favor of this and other changes point to tight labor markets, the need to retain older staff, and the growing expense of existing public pensions.

Needless to say, there is opposition. Workers and union representatives voiced opposition based on the physical requirements and stresses of many of the public sector jobs.

The consultation, sponsored by NHS employers, will last three months. Government recommendations are expected later in the year.

Further information on public sector retirement issues in the United Kingdom may be found by searching the following websites: http://www.telegraph.co.uk http://www.lynnnews.co.uk

Americans Confused About Retirement

While most Americans have a reasonable idea of how much income they will need to be comfortable in retirement, many don't know how to reach that goal. One thing many are certain about, however, is they know they are not saving enough. These findings were a part of a survey of retirement savers age 40 and older conducted for Vanguard Group by Greenfield Online in 2004 and whose results were summarized in the Jan. 6, 2005 edition of the Wall Street Journal.

Results of the survey show that about one-third of all respondents were on track to have a retirement income equal to 70% of their current earnings. Another third were "potentially secure" in that they could expect between 50% and 69% of their current income in retirement. The final third may end up with less than half of their current income during retirement.

Other results from the survey:

- 90% of respondents had given some thought to whether they were saving enough for retirement.

- The average retirement saver reported that they would need 70% of their current income in retirement (some said they would need 105% and others said they would need 50%.)

- While 62% of the respondents said they were saving 8% of their income for retirement, they felt they should be saving twice that amount.

Vanguard Group and the Wall Street Journal can be found on the following web-sites:
http://www.vanguard.com
http://www.wsj.com